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U.S. - GCC Security Relations, II: Growing Domestic Economic and Political Problems

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Note

Conclusions

Recommendations

Economic Difficulties Will Persist

The Arab monarchies of the Persian Gulf-- Kuwait, Saudi Arabia, Bahrain, Qatar, United Arab Emirates (UAE), and Oman--grouped in the Gulf Cooperation Council (GCC) face economic problems. Adjusted for inflation, their oil income is less today than 15 years ago, while their populations are 50 percent larger.

During the oil boom years from 1973 through 1984, the false impression was created that the GCC countries were world-class economic powers. For the moment, they were important in world financial markets, when the oil revenues were flooding in faster than could be spent. The image of this period remains in the minds of many, even though the reality has long since changed. The only GCC state with significant foreign assets, above the normal needs of a central bank for smoothing out fluctuations, is Kuwait. And those assets are endangered by the large deficits in Kuwait's budget.

Nor are the GCC countries fabulously wealthy any longer. At the height of the oil boom fifteen years ago, they were the world's richest countries: per capita income in the GCC states exceeded that in the United States then. The situation is entirely different now. In 1995, the six GCC states have a collective GDP of about \$210 billion, and a total population of 24 million, giving them a GDP per capita of \$8,700. That is one-third of the U.S. level and two-thirds of the Israeli level. To be sure, the GCC figures are distorted by the large numbers of low income foreign workers. Comparing the GDP to only the citizen population of 13 million, the GDP per citizen works out at \$16,000, or two-thirds of the U.S. level and the same as for Israel's Jewish population. In other words, the GCC states are economically at the cusp between developing nations and industrial states -- they are not at the economic level of the major industrial powers.

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The prospects for the GCC economies remain dependent on the world oil outlook. The International Energy Agency forecasts that the demand for oil will increase briskly over the next fifteen years, resulting in higher prices and in a sharp increase in GCC output, even factoring in Iraq's eventual return to oil markets. But similar forecasts of a recovery in GCC oil income have been made steadily for ten years and have been consistently wrong. The forecasts have consistently underestimated the steady expansion of oil output from non-OPEC sources other than the CIS, which looks set to continue. Indeed, because of advancing technology that reduces production costs and makes possible production from previously uneconomical fields (primarily in the Gulf of Mexico), U.S. oil output may increase in the next decade. Given the history of overly optimistic projections, the GCC states would be well advised to base their plans on cautious forecasts about future income.

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It is entirely possible that the current era of constrained resources will persist for the indefinite future. Even under the most optimistic forecasts from government or industry sources, oil income per capita will not return to the levels of 1973-84. Governments will have to continue economizing, spending less on services and subsidies than what the population has come to expect. While economists can readily point out inefficiencies and areas for economizing, the need to win acceptance of constraining changes will delay efforts to balance the budget. Following the experiences of other countries, GCC deficits are likely to shrink no more than two percent of GDPs per annum. That means Kuwait, with a deficit about 20 percent of GDP (the largest in the GCC), is not likely to have a balanced budget in this decade. Most of the GCC countries will have to borrow significant sums abroad by the end of the decade.

Domestic Politics Will Become More Lively

During the last twenty years, the domestic politics of the Gulf states were remarkably quiet for countries undergoing profound socio-economic changes. There were some signs of domestic political debate, especially in Kuwait, and one spectacular violent episode (the 1979 takeover of the Mecca Mosque by extremists). One reason was that there were ample funds to grease the wheels; another was the stability of leadership. Qatar's July 1995 change in ruler was the first such transition in any of the GCC countries in 15 years. Some of the rulers have been in power for 30 years.

In coming years, Gulf governments may face more vocal domestic opposition. Some of this is a healthy broadening of political debate; e.g., the Kuwaiti parliament has become active, holding the government and the ruling family accountable for waste, fraud, and abuse. Some of the opposition is violent, such as the unrest in Bahrain that began with sizeable disturbances in late 1994 and continues with fire bombings and occasional demonstrations. The level of opposition, both within established political institutions and on the street, is and will probably remain modest in comparison to most countries, including the United States. The Gulf is ripe for dissent, not for revolution. The challenge for GCC governments will be accustoming themselves and their societies to open dissent, which is a new phenomenon that some government officials will find disturbing.

GCC POPULATION AND OIL EXPORTS

Dissent may well be expressed in religious terms. The mosque is one of the few institutions in which debate about issues of the day is acceptable socially. There is greater interest in the purity of Islamic practice among the youth. Unlike their parents who went to Western universities, the young elite were educated at home in institutions stronger in Islamic instruction than in technical learning. The youth are becoming aware of the limited prospects facing them compared to their parents' generation, and they wonder if the great riches of the oil boom went West.

Disagreements with the United States about Burden Sharing Are Inevitable

The temptation is strong to think of the GCC states as a cash cow who can provide the money to solve every security problem the United States faces, from maintaining the defense industrial base through arms purchases to paying for the oil provided to North Korea. Saudis say they have more than 40 requests pending from the United States for financing various security or humanitarian operations.

The checkbook approach to the security relationship is unsustainable. Even if the Gulf countries had the cash--which they do not--security ties could not be based over the long run on soldiers-for-hire. The United States commits its forces where its national security interests are at stake, not where there is money to be made. Overemphasis of the financial side of the relationship is corrosive of domestic U.S. support for the relationship. The U.S. commitment to the region must be based on a corresponding commitment of the GCC citizens to the defense of their own states. To be brutal, the relationship must be bonded in blood not money: GCC citizens must be prepared to die defending their countries before the U.S. public will accept risking its sons' and daughters' lives in defense of GCC states.

The financial approach to the relationship undermines confidence in the GCC about the U.S. commitment to the region. There is a general recognition in the region that the United States will remain concerned because of its vital interest in who controls the Persian Gulf oil. But there is some nervousness among the foreign policy elite about how much the United States will be prepared to back up that concern, especially when the United States seems preoccupied with its domestic problems. In discussion, analysts cited examples of what they saw as a lack of U.S. follow-through on its commitments to the Muslim world: the U.S. withdrawal from Somalia after committing its prestige, and the perceived difference in Bosnia between strong words and weak actions.

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Once the principle is established that the United States is in the Gulf to defend its vital interests and that the GCC states are determined to provide as much as they can for their own defense, then there come the details of who is responsible for what. Disagreements about burden sharing are inevitable. They occur in every single security relationship that the United States has.

To keep the differences within bounds, agreement is needed on the general principles that govern the

burden sharing. Desert Storm/Shield operated in practice on the principle that the United States provides men but not money. That is an inappropriate basis for a long-term relationship. The best model is the German and Japanese experience, in which the foreign partner is asked to pay for some or all of the costs incurred in their countries, such as housing or the higher cost of training abroad, but not for the salary costs or the wear-and-tear on equipment. In fact, the German and Japanese model is more or less what is being done at present in the Gulf. The current situation in the GCC states is that the local governments provide host nation support consistent with their resources and their security problem. In practice, this means that Kuwait and Saudi Arabia pay more of the local costs for U.S. forces, while Bahrain and the U.A.E. pay less.

More needs to be done to educate publics in the United States and in the GCC countries about current cost-sharing arrangements for U.S. forces in the Gulf. Many otherwise well-informed persons in the Gulf are under the impression that they are bearing the full burden of the U.S. military involvement in the region, whereas, in fact, U.S. taxpayers pay tens of billions of dollars each year for forces in the region or committed to go to the defense of the region. Similarly, many in the foreign policy community in the United States seem to be unaware of the continuing payment for Southern Watch operations over southern Iraq.

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